

# Orange County Office

## Market Summary

	1Q 2017	FORECAST
Absorption	↑	↑
Vacancy	↓	↔
Rental Rate	↑	↑
New Construction	↑	↑

## Notable Office Leases

**The Los Angeles Chargers**  
3333 Susan St, Costa Mesa  
101,831 s.f.

**Blizzard Entertainment**  
15253 Bake Pky, Irvine  
65,006 s.f.

**Collectors Universe, Inc.**  
1610 E Saint Andrew Pl, Santa Ana  
62,755 s.f.

**OC 405 Partners**  
3100 Lake Center Dr, Santa Ana  
60,461 s.f.

## Notable Construction

**The Boardwalk**  
Irvine  
537,258 s.f. | Delivering 8/2017

**400 Spectrum Center Drive**  
Irvine Spectrum  
466,696 s.f. | Delivering 9/2017

**Broadcom Corporate Campus**  
4 Buildings - Irvine Spectrum  
880,000 s.f. | Delivering 1/2018

**Summit Office Campus**  
Aliso Viejo  
205,000 s.f. | Delivering 9/2017

The Orange County office market continued to improve in Q1 2017, as pricing continued to increase, and vacancy was stable, even as increasing amounts of available space come onto the market. We anticipate that positive absorption shall progress and occupancy costs will continue to increase, but new deliveries in the southern half of the county may apply more upward pressure on vacancy. Even so, 2017 portends to be another year of growth.

Net absorption, a measure of market strength, was positive 324,729 square feet in Q1. This gives Orange County a total of over eleven million square feet of positive absorption since the third quarter of 2010, five million of that coming in since the beginning of 2014. Class B space accounted for most of the positive absorption in the county for the quarter. This is a result of higher lease rates in the Class A space, as tenants coming up for renewal are migrating back to the more affordable Class B space. In turn, this has caused a steady increase in Class B asking rents. Year over year, direct Class B rents have increased 7.4%, from \$2.16 to \$2.32 FSG.

Construction activity in the office sector is increasing. Currently, there's over 1.5 million square feet under construction in the South County market and another 704,049 square feet (SF) in the Airport market, for a total of almost 2.3 million square feet. Both buildings of the Sand Canyon Business Center, totaling 212,100 SF, delivered this quarter; and the 537,000 SF of the Boardwalk is set to deliver by August 2017. The level of construction is anticipated to increase in the coming quarters, as more projects are slated to break ground in the Airport market.

Compared to last quarter and year-over-year, leasing activity was up in Q1, with just over 2.5 million square feet coming off the market. Even with construction picking up, vacancies should remain at current levels for the near future.

The Orange County office market vacancy rate ticked down from 10.3% in Q1 2016 to 10.0% presently, which equates to 12.46 million square feet of vacant office space

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# Area Review

## Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Availability Rate	1Q Direct Net Absorption	YTD Direct Net Absorption	1Q Leasing Activity	YTD Leasing Activity	Average Direct Rental Rate
Costa Mesa	7,698,476	12.0%	12.5%	16.7%	8,677	8,677	229,439	229,439	\$2.47
Irvine	25,105,210	9.6%	10.1%	18.4%	(22,455)	(22,455)	769,318	769,318	\$2.76
Newport Beach	10,901,352	7.7%	8.3%	11.1%	(36,142)	(36,142)	235,883	235,883	\$3.33
South Santa Ana	2,449,434	15.7%	15.9%	16.9%	57,654	57,654	4,802	4,802	\$2.33
Class A	25,381,165	12.7%	13.4%	18.6%	20,960	20,960	754,445	754,445	\$3.18
Class B	19,178,782	6.5%	6.8%	13.7%	(50,649)	(50,649)	473,823	473,823	\$2.60
Class C	1,594,525	5.8%	5.8%	11.9%	37,423	37,423	11,174	11,174	\$2.06
<b>Airport</b>	<b>46,154,472</b>	<b>9.9%</b>	<b>10.4%</b>	<b>16.3%</b>	<b>7,734</b>	<b>7,734</b>	<b>1,239,442</b>	<b>1,239,442</b>	<b>\$2.86</b>
Civic Center Area	5,049,439	8.1%	8.1%	9.2%	37,092	37,092	16,548	16,548	\$1.56
East Orange	1,905,113	5.6%	5.8%	8.2%	(5,578)	(5,578)	21,878	21,878	\$2.21
Main Place	2,693,984	12.2%	12.2%	17.8%	13,358	13,358	14,284	14,284	\$2.21
Parkcenter	4,067,868	12.1%	12.3%	15.6%	(18,284)	(18,284)	67,155	67,155	\$1.91
Santa Ana	4,619,446	16.4%	16.7%	16.1%	145,000	145,000	152,810	152,810	\$2.04
Stadium Area	3,268,595	13.4%	13.9%	13.3%	9,065	9,065	103,721	103,721	\$2.10
The City	2,629,548	9.2%	10.3%	12.6%	(35,603)	(35,603)	35,166	35,166	\$2.64
Tustin	1,648,809	18.6%	18.6%	18.7%	64,085	64,085	47,135	47,135	\$2.19
Class A	7,358,932	11.8%	12.2%	11.9%	9,882	9,882	149,693	149,693	\$2.31
Class B	15,204,091	12.5%	12.8%	14.5%	232,355	232,355	248,850	248,850	\$2.00
Class C	3,319,779	9.5%	9.5%	14.3%	(33,102)	(33,102)	60,154	60,154	\$1.53
<b>Central</b>	<b>25,882,802</b>	<b>11.9%</b>	<b>12.2%</b>	<b>13.8%</b>	<b>209,135</b>	<b>209,135</b>	<b>458,697</b>	<b>458,697</b>	<b>\$1.98</b>
Anaheim Hills	1,139,621	15.0%	15.3%	15.1%	(11,583)	(11,583)	13,856	13,856	\$2.07
Brea/La Habra	4,434,584	7.8%	9.7%	12.3%	11,658	11,658	123,890	123,890	\$2.13
Buena Park/La Palma	1,956,192	12.8%	12.8%	18.3%	3,968	3,968	10,770	10,770	\$2.12
Fullerton	2,629,334	6.7%	6.7%	14.7%	5,630	5,630	19,763	19,763	\$2.46
North/East Anaheim	5,184,094	5.3%	5.3%	9.9%	3,532	3,532	16,228	16,228	\$2.14
Placentia/Yorba Linda	622,164	11.1%	11.1%	12.3%	9,048	9,048	12,305	12,305	\$1.73
Class A	3,191,188	12.1%	14.1%	20.1%	19,434	19,434	72,223	72,223	\$2.32
Class B	11,461,308	7.2%	7.4%	11.7%	341	341	115,690	115,690	\$2.11
Class C	1,313,493	5.1%	5.1%	5.2%	2,478	2,478	8,899	8,899	\$1.58
<b>North</b>	<b>15,965,989</b>	<b>8.0%</b>	<b>8.5%</b>	<b>12.8%</b>	<b>22,253</b>	<b>22,253</b>	<b>196,812</b>	<b>196,812</b>	<b>\$2.14</b>
Irvine Spectrum	11,395,855	6.1%	6.8%	9.6%	138,874	138,874	246,045	246,045	\$2.83
Laguna Hills/Aliso Viejo	5,311,096	10.7%	11.5%	19.2%	(2,515)	(2,515)	151,822	151,822	\$2.91
Laguna Niguel/Laguna Beach	2,054,140	4.3%	4.3%	4.8%	(12,126)	(12,126)	14,303	14,303	\$2.78
Lake Forest/Foothill Ranch	3,367,090	9.6%	10.2%	11.1%	(71,376)	(71,376)	54,224	54,224	\$2.34
Mission Viejo	2,212,238	12.8%	13.1%	14.5%	(53,911)	(53,911)	47,221	47,221	\$2.46
Dana Point/San Juan/ San Clemente	2,195,305	10.5%	10.6%	12.8%	(13,357)	(13,357)	9,001	9,001	\$2.49
Class A	7,714,606	10.8%	11.1%	11.1%	58,357	58,357	148,464	148,464	\$3.16
Class B	18,105,840	7.3%	8.0%	12.7%	(72,451)	(72,451)	372,775	372,775	\$2.56
Class C	715,278	2.9%	2.9%	3.1%	(317)	(317)	1,377	1,377	\$2.01
<b>South</b>	<b>26,535,724</b>	<b>8.2%</b>	<b>8.8%</b>	<b>12.0%</b>	<b>(14,411)</b>	<b>(14,411)</b>	<b>522,616</b>	<b>522,616</b>	<b>\$2.71</b>
Cypress	1,967,956	14.4%	14.4%	17.4%	65,513	65,513	5,518	5,518	\$2.09
Fountain Valley	2,084,873	3.8%	3.8%	4.0%	1,481	1,481	6,047	6,047	\$1.70
Garden Grove	1,655,850	4.2%	4.2%	3.7%	7,638	7,638	24,125	24,125	\$1.80
Huntington Beach	2,677,628	6.5%	6.9%	12.0%	10,181	10,181	25,564	25,564	\$2.36
Los Alamitos/Stanton	995,740	7.6%	7.6%	9.0%	(4,222)	(4,222)	14,282	14,282	\$2.25
Seal Beach	499,187	6.2%	6.2%	8.1%	11,079	11,079	14,877	14,877	\$2.82
Westminster	642,173	10.9%	10.9%	15.3%	8,348	8,348	4,095	4,095	\$2.03
Class A	2,465,352	9.8%	10.2%	13.8%	42,535	42,535	20,888	20,888	\$2.54
Class B	7,025,732	7.1%	7.1%	9.3%	66,394	66,394	68,970	68,970	\$2.02
Class C	1,032,323	4.1%	4.1%	4.4%	(8,911)	(8,911)	4,650	4,650	\$2.07
<b>West</b>	<b>10,523,407</b>	<b>7.4%</b>	<b>7.5%</b>	<b>9.9%</b>	<b>100,018</b>	<b>100,018</b>	<b>94,508</b>	<b>94,508</b>	<b>\$2.16</b>
<b>Orange County Total</b>	<b>125,062,394</b>	<b>9.5%</b>	<b>10.0%</b>	<b>13.9%</b>	<b>324,729</b>	<b>324,729</b>	<b>2,512,075</b>	<b>2,512,075</b>	<b>\$2.48</b>
Class A	46,111,243	12.1%	11.6%	16.1%	151,168	151,168	1,145,713	1,145,713	\$2.93
Class B	70,975,753	8.2%	9.2%	12.9%	175,990	175,990	1,280,108	1,280,108	\$2.32
Class C	7,975,398	6.8%	6.4%	10.1%	(2,429)	(2,429)	86,254	86,254	\$1.72
<b>Class Total</b>	<b>125,062,394</b>	<b>9.5%</b>	<b>10.0%</b>	<b>13.9%</b>	<b>324,729</b>	<b>324,729</b>	<b>2,512,075</b>	<b>2,512,075</b>	<b>\$2.48</b>

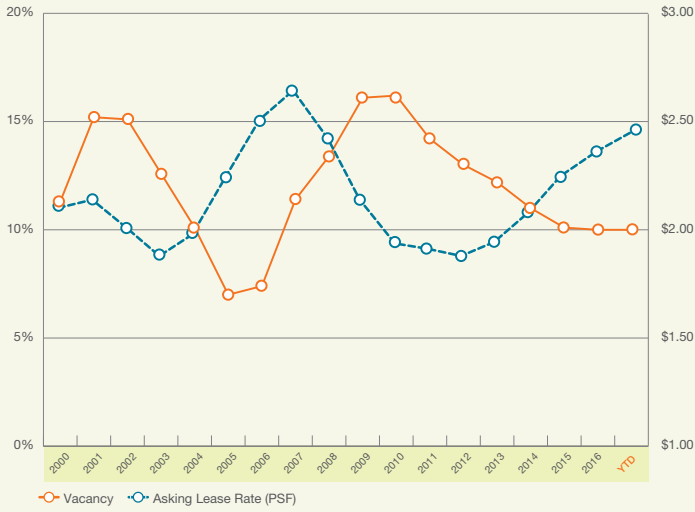
countywide. This is a decrease from the 14.33 million square feet that was vacant a year ago. We foresee the vacancy rate remaining at this 10% level for the near term, even with the new space that's being added to the market.

The average asking lease rate in the first quarter was \$2.48 per square foot on a full service gross basis per month. These asking rates are up \$.18 from a year ago, a 7.8% year-over-year increase. Peak lease rates were established in the third quarter of 2007, when they were \$2.70 per square feet. Nonetheless,

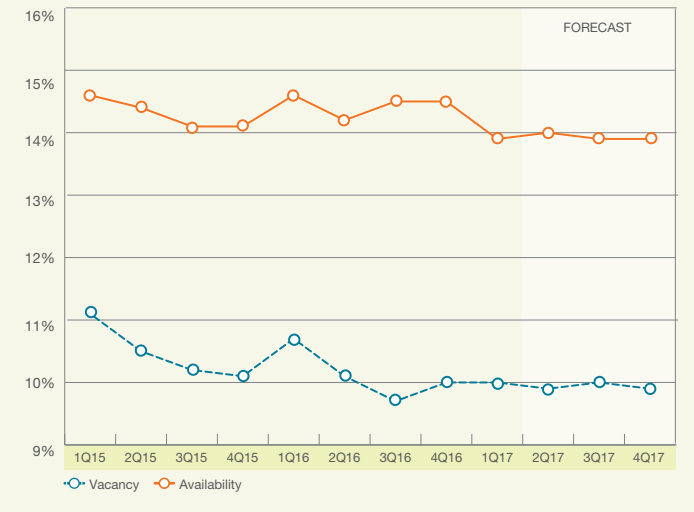
the asking rate for quality office space in Orange County should continue to increase.

The Orange County office investment market remains relatively stable, mostly because much of the high quality office product that sellers were looking to move has sold, and there isn't much high quality office product available for sale in Orange County. It's a great time to be a landlord or seller, as the Orange County office market continues to improve.

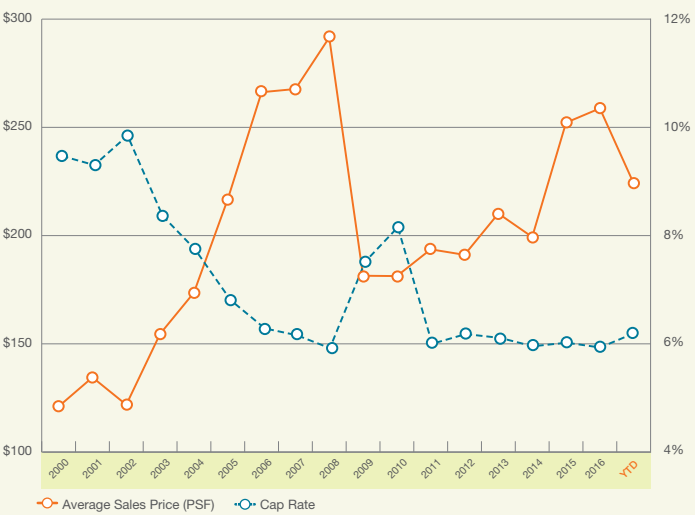
### VACANCY VS ASKING LEASE RATE



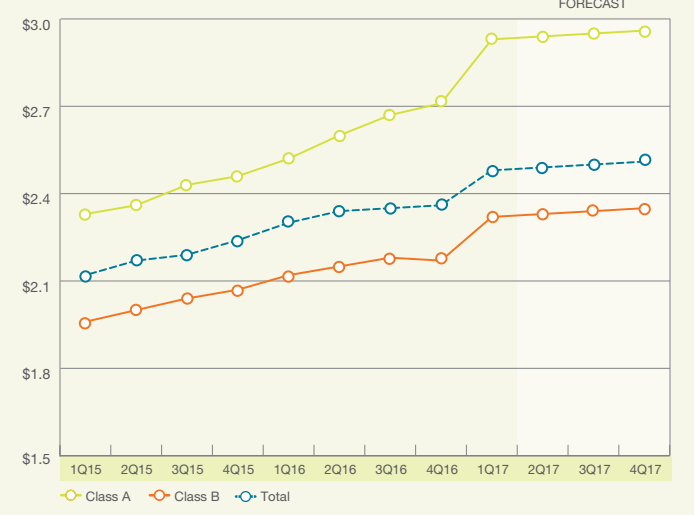
### VACANCY VS AVAILABILITY



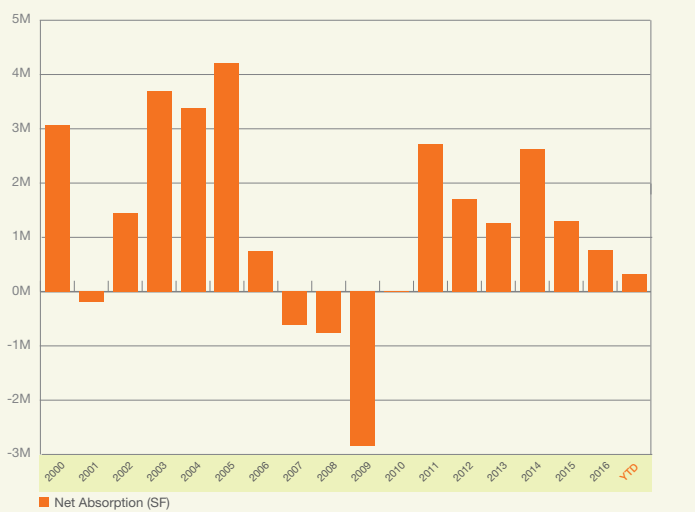
### AVERAGE SALES PRICE & CAPITALIZATION RATES



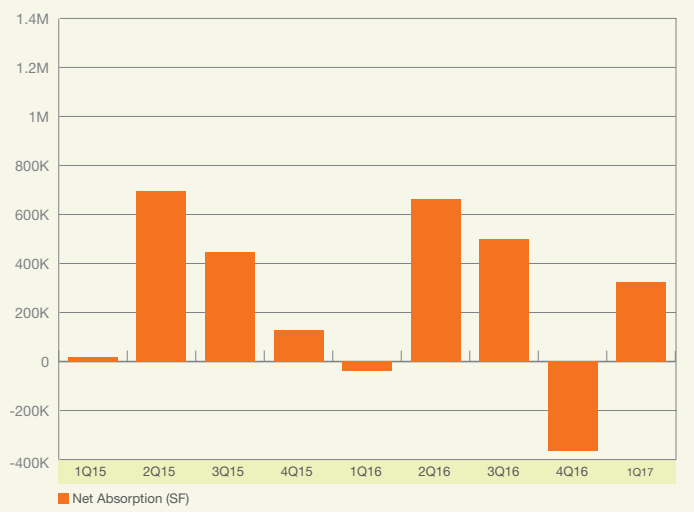
### ASKING LEASE RATE



### NET ABSORPTION - HISTORICAL



### NET ABSORPTION - QUARTERLY



**Offices**

Seattle  
206.296.9600

Bellevue  
425.454.7040

South Seattle  
206.248.7300

Tacoma  
253.722.1400

Olympia  
360.705.2800

Portland  
503.221.9900

San Francisco  
415.229.8888

Redwood Shores  
650.769.3600

Silicon Valley  
408.970.9400

Sacramento  
916.970.9700

Roseville  
916.751.3600

Los Angeles  
213.880.5250

Commerce  
323.727.1144

Long Beach  
562.472.0071

Orange County  
949.557.5000

Inland Empire  
909.764.6500

San Diego  
858.509.1200

Carlsbad  
760.430.1000

Reno  
775.301.1300

Phoenix  
602.513.5200

**Contact**

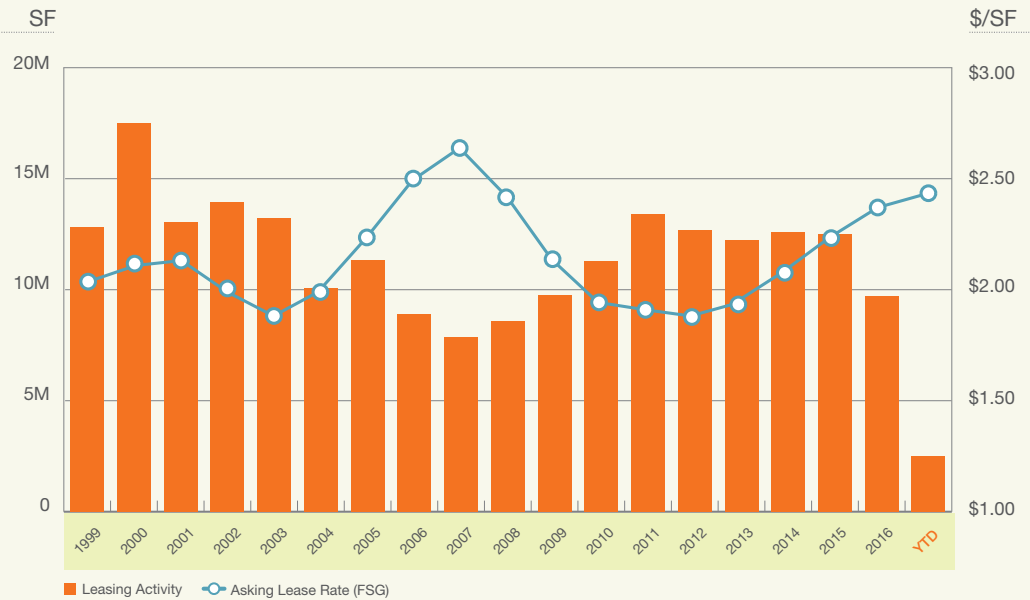
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Designated Broker  
Mark Read | LIC #00572743

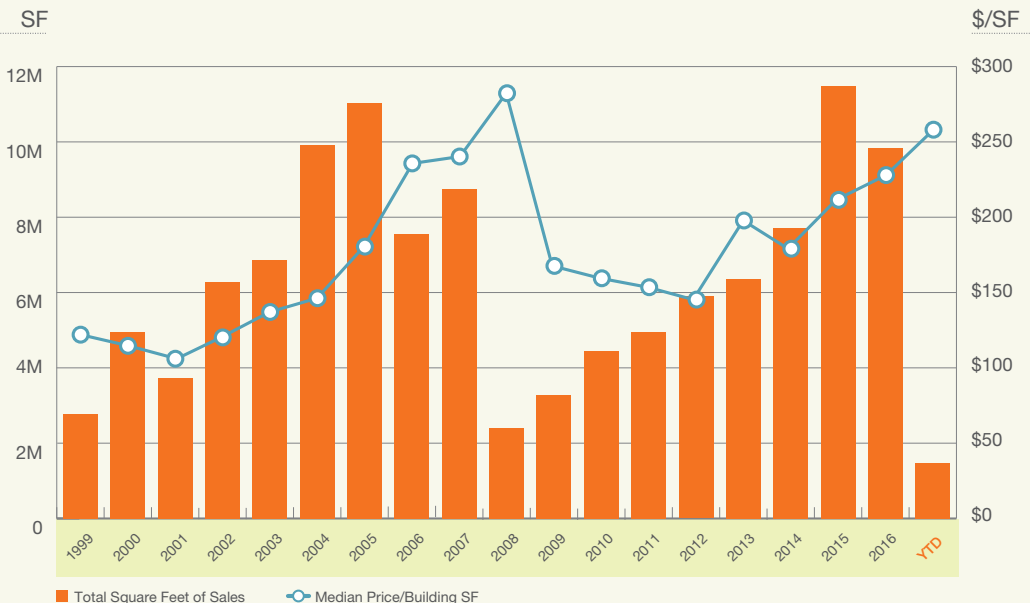
**Market Breakdown**

	1Q17	4Q16	1Q16	Annual % Change
Vacancy Rate	10.00%	10.00%	10.30%	-2.91%
Availability Rate	13.90%	14.50%	13.80%	0.72%
Asking Lease Rate	\$2.48	\$2.36	\$2.30	7.83%
Lease Transactions	2,512,075	1,577,955	2,451,130	2.49%
Sale Transactions	1,464,940	4,629,403	1,710,775	-14.37%
Net Absorption	324,729	-366,648	128,618	N/A

**HISTORICAL LEASING ACTIVITY & ASKING LEASE RATES**



**HISTORICAL SALES SF & MEDIAN SALE PRICE**



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